

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05  
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05  
SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02  
OMB-01 DOE-15 JUSE-00 /126 W  
-----014207 301735Z /46

R 301510Z MAY 78  
FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 6888  
INFO ALL EC CAPITALS  
USMISSION GENEVA

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USEEC

PASS AGRICULTURE FOR ASSISTANT SECRETARY HATHAWAY

GENEVA ALSO FOR MTN DEL

E.O. 11652: N/A  
TAGS: ETRD, EEC  
SUBJECT: US-EC CONSULTATIONS: DISCUSSION OF NON-STEEL  
ISSUES IN WORKING GROUP

1. US/EC CONSULTATIONS WORKING GROUP ON TRADE AND STEEL  
ISSUES MET ON THURSDAY AFTERNOON MAY 25. STEEL DISCUSSIONS  
REPORTED ELSEWHERE. THIS CABLE REPORTS ON DISCUSSION OF  
FOLLOWING TRADE ISSUES: SYNTHETIC FIBERS, PULP AND PAPER,  
SUGAR, SUBSIDIES FOR PROCESSED AGRICULTURAL PRODUCTS, CVD  
WAIVERS ON CANNED HAMS AND BUTTER COOKIES, AND US EXPORTS  
OF POULTRY PARTS. TRADE DISCUSSIONS CHAIRED ON US SIDE BY  
DEPUTY ASSISTANT SECRETARY BARRACLOUGH AND ASSISTANT STR  
GEZA FEKETEKUTY AND ON EC SIDE BY DEPUTY DIRECTOR GENERAL  
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LOEFF AND INDUSTRIAL DIRECTOR GENERAL BRAUN.

2. SUGAR:  
US SIDE EXPLAINED THAT SUGAR QUESTIONS WOULD BE RAISED  
DURING NORTH/SOUTH DISCUSSION IN PLENARY. AT EC REQUEST,  
BARRACLOUGH RAN DOWN POINTS WHICH UNDER SECRETARY COOPER  
PLANNED TO MAKE ALONG LINES OF STATE 132643.

3. SYNTHETIC FIBERS:

US SIDE ASKED FOR DETAILS ON EC ACTIONS ON SYNTHETIC FIBERS, NOTING PRESS REPORTS THAT CARTEL WAS IN PROCESS OF FORMATION. IN RESPONSE EC SIDE (BRAUN) SAID THAT HE EXPECTED THAT ALL MAJOR EC PRODUCERS, WITH THE EXCEPTION OF US FIRM AFFILIATES, WILL SIGN WITHIN THREE TO FOUR WEEKS AN AGREEMENT AMONG THEMSELVES AS TO WHAT STEPS THEY SHOULD TAKE TO REDUCE CAPACITY AS WELL AS ON ACCOMPANYING MEASURES TO ASSURE THAT THIS IS DONE CORRECTLY. BRAUN EXPECTS THAT THE FIRMS WILL THEN ASK THE EC FOR BOTH A GENERAL BLESSING OF THEIR INTENTIONS AS WELL AS A LEGAL APPRAISAL ON WHAT THEY HAVE DONE. BRAUN SAID THAT HE HAS NO DOUBT THAT COMMISSION AND MEMBER STATES WILL AGREE WITH THE GENERAL THRUST OF THE AGREEMENT; THE COMMISSION HAS ALREADY PARTICIPATED ACTIVELY IN ATTEMPTS TO SOLVE THE GENERAL PROBLEM. AS FOR A LEGAL APPRAISAL, DG-IV (COM-PETITION) WILL HAVE TO SEE WHETHER ARTICLE 85 (3) OF THE TREATY OF ROME CAN COVER THE CARTEL ARRANGEMENT OR WHETHER THE EXCEPTIONAL POWERS PROVIDED UNDER ARTICLE 87 WOULD NEED TO BE INVOKED.

4. BRAUN ADDED THAT THE COMMISSION, PARTICULARLY HIS OWN DIRECTORATE GENERAL, HAS SERVED AS A MID-WIFE IN BRINGING THE CARTEL TO BIRTH, HELPING WHEN NECESSARY, FOR INSTANCE IN PERSUADING THE ITALIAN GOVERNMENT TO GO ALONG. DG-III LIMITED OFFICIAL USE

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ALSO ATTEMPTED TO ENSURE THAT THE FIRMS WOULD NOT PUT THEMSELVES IN ANY ADVERSE LEGAL SITUATION ALTHOUGH IT STAYED AWAY FROM GIVING PRECISE LEGAL ADVICE. BRAUN ADDED THAT ALL THE MEMBER STATES, INCLUDING THE FRG, POSED NO OBJECTION TO THE SYNTHETIC FIBERS CARTEL ALTHOUGH THE FRG HAS BEEN TRYING TO OBLIGE THE EC TO MAKE QUITE CLEAR, IN A LIMITING WAY, WHAT CRITERIA WOULD NEED TO BE MET BEFORE SIMILAR CATEGORIES COULD BE ENVISAGED IN OTHER INDUSTRIES. BRAUN STATED THAT THE COMMISSION HAD RECEIVED MORE UNDERSTANDING THAN IT HAD EXPECTED FROM THE TRADE UNIONS AND HAD OFFERED ASSURANCES THAT AN EFFORT WOULD BE MADE TO COMPENSATE FOR LOST EMPLOYMENT, PARTICULARLY FOR NEW JOBS IN CERTAIN REGIONS SUCH AS SARDINIA WHERE INDUSTRY PLANS TO EXPAND OPERATIONS WILL NOW BE CURTAILED.

5. THE COMMISSION ESTIMATED THAT BY 1980, IF NO STEPS TO REDUCE PRODUCTION HAD BEEN TAKEN, CAPACITY IN WESTERN EUROPE FOR EXPORT WOULD HAVE REACHED 3.5 MILLION TONS WHILE DEMAND WOULD BE ONLY 2.3 MILLION TONS. BRAUN CLOSED BY STATING THAT THERE WERE NO EXPORT IMPLICATIONS TO THE CARTEL AND THAT COMPETITION FROM IMPORTS INTO THE EEC

WILL BE ALLOWED TO CONTINUE. IN RESPONSE, BARRACLOUGH EXPRESSED USG CONCERN THAT WHAT IS HAPPENING IN SYNTHETIC FIBERS COULD BE PART OF A DEVELOPING TREND. HE WONDERED WHAT THE POSSIBILITIES WERE FOR OTHER AREAS, SUCH AS PAPER, AND EXPRESSED CONCERN ABOUT THE POTENTIAL FOR EXTERNAL TRADE EFFECTS.

6. PULP AND PAPER AND OTHER:

IN RESPONSE TO BARRACLOUGH QUESTION, BRAUN SAID HE WAS TOTALLY UNAWARE OF ANY EC PLANS TO ENCOURAGE A SIMILAR CARTEL ARRANGEMENT. BARRACLOUGH SAID HE WAS REASSURED BY THESE COMMENTS AS US HAD HEARD THAT SUCH STEPS MIGHT

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OMB-01 DOE-15 JUSE-00 /126 W  
-----014282 301734Z /46

R 301510Z MAY 78  
FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 6889  
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BE IN PROCESS OR THAT EC MIGHT BE CONSIDERING CHANGING THE EFTA ARRANGEMENTS ON PAPER WHICH COULD HAVE IMPLICATIONS FOR LOWER TARIFFS ON PAPER PRODUCTS AS A RESULT OF THE MTN, SOMETHING IN WHICH WE ARE VERY INTERESTED.

7. ON PAPER, BRAUN ADDED THAT EVERY TWO OR THREE YEARS, EC COMPETITION DIRECTORATE IS OBLIGED TO LOOK INTO INFORMAL PRICE ARRANGEMENTS WHICH HAVE GROWN UP BETWEEN SCANDINAVIANS AND PART OF THE EC INDUSTRY. HE SAID THIS IS NOT A CARTEL BUT SIMPLY PART OF THE INDUSTRY TRYING TO ENSURE ITS OWN PERMANENT MARKET SHARE. EC WOULD CONTINUE TO DISCOURAGE THESE ARRANGEMENTS. IN GENERAL, HE DID NOT THINK THAT A CARTEL WAS POSSIBLE SINCE THERE WERE TOO MANY FIRMS INVOLVED AND TOO LARGE A PRODUCT

LINE. GOING ON, BRAUN SAID THAT THERE WOULD BE NO FURTHER EC CARTELS WHICH WOULD NOT INVOLVE REDUCTIONS IN PRODUCTIVE CAPACITY, I.E. CARTELS WHICH ONLY AIMED TO SHARE MARKETS WOULD NOT BE ALLOWED. PURPOSE OF SYNTHETIC FIBERS CARTEL IS TO REDUCE CAPACITY. IN THE SHORT TERM IT WAS NECESSARY TO ASSIGN DELIVERY QUOTAS IN ORDER TO SELL THE LIMITED OFFICIAL USE

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IDEA TO THE ITALIANS. ALTHOUGH CIRCUMSTANCES ARE DIFFERENT AND CARTEL ARRANGEMENTS ARE NOT INVOLVED, COMMISSION PLANNING IS VERY SIMILAR IN SHIPBUILDING AND STEEL, I.E. FIRMS WILL BE OBLIGED TO MOVE TOWARD REALISTIC PRODUCTIVE CAPACITY.

8. SUBSIDIES FOR PROCESSED AGRICULTURAL PRODUCTS:  
US SIDE (MONTEL) NOTED US UNDERSTANDING THAT COMMISSION IS IN PROCESS OF ESTABLISHING THE LEVEL OF SUBSIDIES TO PROCESSORS AND MINIMUM PRICES TO GROWERS OF CERTAIN RAW MATERIALS AS PROJECTED UNDER THE 78-79 AGRICULTURAL PRICE PACKAGE. HE NOTED THAT US DID NOT PROTEST THE ESTABLISHMENT OF THESE SUBSIDIES THEMSELVES BUT IS CONCERNED THAT THEIR MAGNITUDE, AS WE UNDERSTAND IT TO BE NOW UNDER DISCUSSION, WOULD PROVIDE INCENTIVE TO EXPAND PRODUCTION AND DISPLACE US EXPORTS, LEADING TO SERIOUS IMPAIRMENT OF THE TRADE BENEFITS WE ENJOY FROM GATT BINDINGS. HE ASKED THAT THE COMMISSION CONSULT WITH THE USG PRIOR TO SETTING THE SUBSIDY LEVEL SO AS TO ENSURE THAT EXCESSIVE SUBSIDIES WERE NOT IMPOSED. BARRACLOUGH EMPHASIZED ADDED US INTEREST IN AN EARLY RESPONSE. IN REPLY, EC SIDE (MARINUCCI, DG-VI AND DE PASCALE, DG-I) SAID THAT THE COMMISSION IS STILL STUDYING THE SUBSIDY QUESTION AND THAT IT IS PREMATURE TO HAVE ANY INDICATION OF WHAT THE LEVEL MIGHT BE. DE PASCALE ADDED THAT THE QUESTION HAS A POLITICAL ASPECT, IN THAT THE DECISION TO ESTABLISH THE SUBSIDY IS PART OF AN EC EFFORT TO SOLVE THE MAJOR PROBLEMS OF MEDITERRANEAN AGRICULTURE. HE ADDED THAT THE COUNCIL REGULATION ESTABLISHING THE SUBSIDIES SETS REAL LIMITATIONS IN TERMS OF PRODUCTION AND OVERALL FUNDS. FINALLY HE SUGGESTED THAT THERE MAY BE CERTAIN INDIRECT BENEFITS FOR US EXPORTERS IN THAT THE NEW SYSTEM REPLACES MINIMUM PRICE FOR TOMATO CONCENTRATES.

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9. WAIVERS ON CANNED HAMS AND BUTTER COOKIES:  
US SIDE (EHRENHAFT) EXPRESSED CONCERN THAT ANY CHANGE IN

CIRCUMSTANCES SURROUNDING THESE TWO WAIVERS COULD PUT IN QUESTION THE RATIONALE UNDER WHICH THESE WAIVERS WERE ORIGINALLY GRANTED. ON CANNED HAMS, HE INDICATED AWARENESS OF AN EC INTEREST IN INCREASING THE LEVEL OF SUBSIDY; ON BUTTER COOKIES, HE NOTED EVIDENCE OF AGGRESSIVE MARKETING IN THE U.S. HE STATED THAT EC SHOULD BE AWARE THAT US

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R 301510Z MAY 78  
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GOVERNMENT REGARDS THE CONDITIONS UNDER WHICH THE ORIGINAL WAIVERS HAD BEEN GRANTED AS VERY SERIOUS AND THAT WERE THEY TO BE UNDERMINED, A NEW SITUATION WOULD BE CREATED. EC SAID THEY WOULD LOOK INTO THE MATTER.

10. US POULTRY PART EXPORTS:  
EC SIDE (DE PASCALE) STATED IT WAS AWARE THAT THE USG HAD NO ROLE IN THE PROBLEM BUT NONE-THE-LESS, THE COMMISSION WANTED US TO BE AWARE THAT CERTAIN CLEVER EC IMPORTERS HAD TAKEN TO ADDING SALT AND PEPPER TO US EXPORTS OF UN-PROCESSED POULTRY PARTS (CXT 16.02A) IN ORDER TO PRESENT THEM FOR CUSTOMS PURPOSES AS BEING PROCESSED AND THEREFORE BENEFITING FROM LOWER IMPORT DUTIES. DE PASCALE SAID THIS WAS IN EFFECT A LOOPHOLE UNDER PRESENT EC REGULATIONS WHICH NEEDED TO BE CLOSED. MARINUCCI (DG-VI) LATER GAVE US FOLLOWING TOTAL IMPORTS INTO EC UNDER THIS CXT HEADING, 80 PERCENT OF WHICH ALLEGEDLY COMES FROM THE U.S. (METRIC TONS):

1975: 3,951

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1976: 3,948

1977: 10,245. HINTON

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## Message Attributes

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**Decaption Date:** 01 jan 1960  
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**Disposition Approved on Date:**  
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**To:** STATE  
**Type:** TE  
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**Review Markings:**  
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20 Mar 2014  
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